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Human Resource Management under Institutional Constraints: The Case of Germany[1]

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Most human resource management (HRM) research has been conducted in countries that have relatively weak labour market institutions such as the UK and the USA. There is little research about the scope for and constraints on the adoption of HRM practices in countries with strong statutory regulations. The research presented here is based on 16 case studies of banks and chemical firms operating in Germany, that comply with the requirements of the German labour market institutions of collective bargaining, co-determination and initial vocational training, and hence operate under strong institutional constraints. The evidence presented shows that institutional features of the German system encourage the implementation of some ingredients of the HRM 'recipe' and inhibit others. It also indicates that constraining influences notwithstanding, a pluralist version of HRM appears to be quite compatible with the highly regulated German context.

Introduction

Since the concept of human resource management (HRM) became popular in the 1980s there have been numerous studies which have tried to measure developments towards its prescriptions. Most of this research has been conducted in countries with few institutional constraints, such as the UK and the USA. Relatively little is known about the use of HRM practices in countries with strong statuatory regulations.

A particularly interesting case for a study of HRM in institutional constraints is Germany. Arguably, over the last decade German companies have been among the most successful in the world. If, as the HRM literature claims, the management of human resources is crucial for business success, then it should at least partly explain the success of the German economy. Companies in Germany have to operate within a system characterized by statutory constraints. The key labour-market institutions of multi-employer bargaining, co-determination and initial vocational training in particular restrict managerial autonomy. A high percentage of the German workforce is covered by multi-employer collective bargaining. This significantly determines pay as well as other terms and conditions. The German system of co-determination restricts organizational autonomy. Furthermore, the system of initial vocational training exerts considerable pressure on companies to provide skill formation on their lines (Muller, 1997b).

One of the most frequently cited accounts of human resource (HR) practices in Germany is the study of Lawrence (1982). Based on visits

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of twelve (manufacturing) companies in West-Berlin he suggested that labour-market institutions strongly influence the German HR function. The system of central collective bargaining means that managers are not directly involved in collective bargaining negotiations, that the works councils condition their activities in such a way that they become reactive, and that the initial vocational training system leads to a preoccupation with training. Although, Lawrence's 1982 research could be somewhat outdated, it is important, as it suggests that German labour-market institutions deter firms operating in Germany from using innovative HR techniques. This would mean that practices which over the last decade have been discussed under the term 'HRM' cannot or cannot easily be applied in Germany. This assessment contradicts the notion that firms in Germany have already achieved the HRM goals of commitment, flexibility and quality for a long time (Garnjost and Wächter, 1996; Hendry, 1991). Nevertheless, there is little empirical research that can answer the question whether the highly-regulated German context encourages or inhibits the implementation of the conventional HRM 'recipe' (Muller, 1999a).

The data presented here aim to throw more light on this issue. In order to do this, it is necessary to define and operationalize what we mean by HRM techniques. The classic statements by Beer *et al*. (1984) and Walton (1985) mention a number of HRM practices. Since then various lists of practices associated with HRM have been drawn up (for recent lists by US researchers see Huselid, 1995; Pfeffer, 1998; Youndt *et al*., 1996 and by UK researchers see Brewster and Hegewisch, 1994, pp. 247–273; Guest and Hoque, 1994; Storey, 1992; Wood and Albanese, 1995). Although some of the indicators presented in these check lists, such as employment security, single status and high investment in training appear to be commonly accepted by most academics that have drawn up inventories of HRM practices, there is, as Guest (1997, p. 266) pointed out, still a lack of 'a coherent theoretical basis for classifying HRM policy and practice'. HRM still appears to be an academically constructed stereotype that is a convenient shorthand for a number of practices. In the absence of a commonly agreed list this research will use Guest's (1987) HR policy goals of commitment, flexibility, quality and strategic integration, to judge whether a particular practice is a HRM technique or not (Muller, 1999b).

The research context

This paper is based on 16 case studies of large firms operating in Germany that comply with the requirements of multi-employer collective bargaining, initial vocational training and works council co-determination. Hence, they guarantee their workforce the minimum terms and conditions of the collective bargaining agreement negotiated by an employers' association on their behalf. Also, they normally have works councils in all their establishments. Furthermore, they employ a significant number of apprentices in initial vocational training. Half of the sample firms are banks and the other half chemical firms (see Table 1). Whereas the majority of them are German-owned, two are US- and three UK-owned. All but one of these organizations have a German workforce of at least 1000 employees. The exceptional case, Savings Bank Borken, is closely integrated into the savings bank group, which organizes most of their training courses and gives advice on HR issues. All companies are based in former West Germany.

For the data collection, multiple sources of evidence were used, most importantly visits to each sample firm and in-depth interviews. Between autumn 1991 and autumn 1994, I talked at least once to eight heads of personnel departments, 44 other HR managers and nine works councillors while visiting the 16 sample firms. Altogether the study is based on 71 face-to-face and 41 follow-up telephone interviews. All firms were visited at least twice. Given the objective and the aims of the study an open, semistructured interview style was used. Besides taking notes, most interviews were tape-recorded. About half of them were transcribed later, and in the remaining cases the notes were edited immediately after the interview.

During the visits, respondents were encouraged to offer internal publications. This primary evidence in the form of company newsletters, works agreements, guiding principles of management and appraisal forms was a second source of information. A third source was secondary published data about the sample firms. This included annual reports and descriptions of HR policies and practices by managers in practitioner journals.

Table 1. The sample firms

Banks	German employees at end of 1993	Chemical Firms	German employees at end of 1993
Deutsche Bank	59 900	Hoechst	85 800
Dresdner Bank	44 300	Henkel	17 800
Hypo Bank	16 000	E. Merck	10 000
West LB Bank	7 000	Beiersdorf	6 000
Citibank Privatkunden	3 600	Veba Oil	5 000
Apotheker und Ärzte Bank	1 900	Procter & Gamble	8 900
Trinkaus & Burkhard Bank	1 000	ICI	1 900
Savings Bank Borken	600	Glaxo	1 400

The collection of information from different sources made it possible to validate the claims of the respondents. For this purpose the researcher also interviewed 16 experts from trade unions, consultants and employers' associations. In autumn 1994, the final drafts of the case studies were fed back to the key informant in each firm, who were asked to check the factual accuracy. Depending on the material gathered these cases were up to 10 000 words long. This respondent validation (Yin, 1989, p. 41) enhanced the construct validity of the case-study research.

The following presentation of the data examines whether the sample firms achieve the HR policy goals of commitment, flexibility, quality and strategic integration (Guest, 1987). It starts with selection and induction, then turns to training, appraisal and employment security and eventually debates pay, communication and quality management. All of these are arguably key HR areas and are usually included in the above checklists of HRM practices.

Selection and induction

Guest (1987, p. 515) suggested that considerable attention must be given to recruitment and induction in order to ensure a high quality of staff. If selection policies aim to select highly committed and flexible people, they can help to achieve the HR outcomes of commitment and flexibility. Induction should be an important element of HRM, since the introduction of newly-recruited employees into the culture of a company can foster their commitment to the organization.

The main criteria used by this study to assess the importance firms attach to the selection of new staff is their use of formal selection methods such as tests and assessment centres. The first step in the selection process in all sample firms is the analysis of application forms. These usually include a curriculum vitae, school reports, academic records and references of former employers. In addition to this written information, the companies conduct at least one interview with the most promising candidates. Commonly, this is with a HR manager and the supervisor of the job in question. For non-managerial employees, the selection decision is usually based on this data. This also largely applies for externally recruited managers, although the number of interviews on which recruitment decisions are based increases with the hierarchical level of the vacancy. Assessment centres are generally only used for the selection of management trainees, and written tests only for the selection of school leavers.

One reason for the sparing use of formal tests could be that most of the applicants will have an initial and sometimes also a further vocational training qualification. As these qualifications are standardized, employers can make relatively safe assumptions about the potential of the applicant. Application papers of candidates for management trainee schemes, and in particular for apprenticeships, are obviously less informative than those of applicants with previous work experience, which explains why the next stage of the selection process needs to be more sophisticated for these two groups of employees. In addition, the concentration on the selection of apprentices and graduates is compatible with an internal labour-market policy favoured by most of the firms in the sample. A second explanation for the less widespread use of formal tests could be co-determination rights. Employee representatives can resist the introduction of tests. In one of the sample firms the works council stopped the introduction of assessment centres for the selection of management trainees. The reason for this was that the works council opposed the increased recruitment of employees with a university degree. Employee representatives were worried that this could reduce the career prospects of employees that do not have this qualification.

Turning to induction, there are several means to communicate values to new staff. As it is difficult to access the use of informal induction methods such as assistance by supervisors and colleagues, the analysis concentrates on structured induction. Arguably the most valuable group of newly-recruited employees taken in on a large scale by an organization operating an internal labour market system is of management trainees. Most of the companies in the sample offer a structured induction training for graduates, which lasts between a few months and four years. In this period, the participants rotate through different departments, observe experienced employees, work on projects and/or participate in specific off-the-job training courses or meetings for this group. Most of the firms also have an off-the-job induction course for apprentices. Such courses are less commonly used for other groups of employees. Thus it seems that not much has changed since the early 1980s, when Kieser (1990) found that formal induction methods are hardly used for newly-recruited clerical or managerial staff, and that learning by doing is by far the most important induction tool.

Whereas the researcher observed no major changes in regard to selection, among the German-owned banks in particular there was a development from generalist trainee schemes during which newly-recruited graduates rotate for two or three years through all functions of the bank, to shorter and more function-specific schemes. Furthermore, over recent years German banks had recruited more graduates directly for specific jobs. This change appeared to be driven by the graduates who are often in their late twenties when they finish their studies, and are less and less interested in starting their career with a year or more of a general vocational training. Another development was that in the early 1990s three of the sample firms introduced induction courses for employees who do not start a trainee scheme or an initial vocational training.

Concluding this section, it appears that most companies in the sample place a special emphasis on the selection and induction of apprentices and management trainees. This is in line with a preference for internal labour markets. Of pivotal importance is the German system of initial vocational training. This provides newly-recruited school leavers with a careful induction. Additionally, as this training is standardized, it makes it less important to test the technical knowledge of employees with such a qualification. Co-determination has some impact on selection and induction, as works councils have the power to influence the design of selection instruments. Taken together, the evidence presented suggests that most companies in the sample are relatively close to HRM prescriptions with regard to the selection and induction of newly-recruited school leavers and graduates. However, there appears to be a relative neglect of other groups of employees.

Training

The second HRM policy area to be discussed is training. High investment in training is often mentioned as a pivotal part of HRM (Guest, 1993; Hendry, 1994, p. 223; Storey, 1992). This is not surprising as it can have a direct influence on the HRM goal of ‘high quality staff’. Also it can contribute to functional flexibility, if it leads to multi-skilling.

If one believes annual reports, mission statements and image brochures, German firms invest a lot in training. These publications often contain commitments to the provision of training. Considering these commitments as well as the importance of initial vocational training in Germany (Backes-Gellner, 1996), it is not surprising that all sample firms employ apprentices in clerical and/or manual occupations. For a period which normally is between two and three years apprentices are trained on-the-job, off-the-job in company specific courses and in vocational schools. Those who do not leave voluntarily after the completion of the initial vocational training, i.e. to study at university, are usually retained and offered a job in the company.

In addition to initial vocational training there is also a system of further vocational qualifications. National standardized certified courses provide employees with intermediate skills. These qualifications are important for those employees with an initial vocational training that want to progress to a supervisory position. The ‘Certified Foreperson’

(*Industriemeister*) and the 'Artisan Foreperson' (*Handwerksmeister*) are well known (Lane, 1989). In addition, there are similar qualifications in commercial occupations such as business management assistant. All sample firms support those employees who study for further training qualifications. Nevertheless, the investment in this training is limited, as a company usually only refunds part of the course fees, gives some release from work duties and pays a bonus after the successful completion of the exam.

Turning to company-specific training, off-the-job training is usually divided between technical and non-technical training. With the exception of courses on computer technology and foreign languages, the technical training in both industries differs. In the chemical firms safety, environment protection, chemistry and mechanical engineering are popular course topics. In the pharmaceutical firms the training of sales representatives is crucial. Technical training in banks is concentrated on the selling of bank services. In addition to technical training, all sample firms have specific courses for managers.

With the exception of apprentice ratios, which in most sample firms declined significantly in the early 1990s, the recession at that time did not seem to have had an adverse impact on training expenditure. Survey evidence indicates that, whereas the investment of chemical firms in training is similar to the one of West German industry as a whole, banks invest well in excess of the average in industry (Bundesministerium für Bildung und Wissenschaft, 1993, p. 119). As training costs are calculated differently in various countries, it is somewhat difficult to compare quantitative data. Nevertheless, comparisons of training patterns of banks suggest that German banks invest more in initial and further vocational training than banks in the UK and the USA (Muller, 1997a).

Some change, though not so much in the extent of training as in its form and focus, was observed. There were attempts to integrate on-the-job and off-the-job training more closely, as there was a perception that off-the-job courses do not necessarily result in behavioural changes, especially if the environment does not facilitate this process. One example is team training for all employees working together in a department, branch or project. Whereas in the 1980s only one of the sample firms offered such training, six introduced it in the early 1990s. There also seemed to be a bigger emphasis on job rotation between functions. This is, at least for managers, one of the most important forms of on-the-job training. Traditionally, employees in Germany start in a certain function where, by and large, they will remain until the end of their career (Handy, 1991, p. 37, Stewart *et al.*, 1994). Several of the HR managers interviewed claimed that over recent years horizontal job rotation has become more important in their companies.

Legal and institutional regulations restrict organizational autonomy with regard to general vocational training qualifications. To some extent this also applies for company-specific further training. Employee representatives have rights regarding the introduction and change of training courses as well as access to them. Over the last decade several empirical studies have shown that works councillors hardly use these rights (for a review of this literature see Auer, 1994; Breisig, 1993, pp. 15–18; Grass, 1997; Sadowski, Backes-Gellner and Frick, 1995). Nevertheless, we came across several examples where employee representatives have influenced training policies. In a branch of one of the largest banks, the works council rigidly controlled access to training courses. This made it extremely difficult for management to organize these courses. The central works council of another bank initially blocked the introduction of a computer-based training course that included a test, on the grounds that this would put undue pressure on employees. The employee representatives only agreed when the software was changed in a way that the trainers only got information on whether a participant had passed or not passed the course, and not his or her detailed test results. From a manager of another bank I know that employee representatives were initially against team training. Only when management changed its name from '*Organizationsentwicklung*' (organizational development) to the less controversial term '*Teamentwicklung*' (team development) did the works council give up its resistance. However, despite these restrictions employee representatives generally seem to support the extensive provision of training.

All in all, the sample firms appear to invest extensively in training, and therefore generally fulfil this HRM prescription. Banks seem to do this even more than chemical firms. Although there are changes in the form and focus of the training provided, the extent remains relatively stable.

The initial vocational-training system obviously has an impact, as it fosters the provision of this training. Although works councils have co-determination rights in this area, they usually do not use them extensively.

Appraisal

Appraisals, the third HRM policy dimension to be assessed, play an important role in the assessment of staff. They can, for example, be used to identify training needs and therefore help to achieve the HRM goal of ‘quality workforce’. They also give employees feedback about their performance. If this feedback is positive, and if the appraisal is linked to the promotion and remuneration system, it can contribute to the HRM goal of commitment.

Most of the sample firms regularly operate a written performance-appraisal system. Whereas in the past this was usually based on a trait rating, in recent years most of them have extended their appraisal system by introducing new elements such as MBO-appraisals, career-development talks and management-development assessment centres. The main reason for this appears to be a dissatisfaction with the traditional personality and trait-rating system’s ability to accurately assess performance and career-development prospects. Career-development talks, management-development assessment centres and development schemes are also introduced to identify candidates with leadership skills and/or develop these skills. This is a break with the past, where progression has depended more on technical skills than leadership qualities.

Whereas the traditional rating-appraisal systems tended to cover all staff, the new elements are often targeted at managers only. Hence they do not fulfil the HRM criteria ‘appraisal of all staff’. One reason for this could be that exempt staff (see later) and executives are arguably the most valuable resources of an organization, and therefore need special attention. Another reason that emerged from the case studies is that works councils have a potentially decisive influence on the shape of an appraisal system. The introduction or change of appraisal schemes can fail if employee representatives cannot be persuaded that it will not be used to the disadvantage of employees. In one of the banks, employee representatives blocked the introduction of a goal-setting appraisal on the grounds that this would be a waste of energy, and that it would increase pressure on employees. For this reason, management implemented this appraisal only for exempt staff, as the works council has limited co-determination rights for this group of employees. The need to negotiate the introduction of an appraisal system with employee representatives could explain why the 1992 Cranfield survey found that German private-sector organizations were among those least likely to have performance-appraisal systems (Brewster and Hegewisch, 1994: Table 5.10).

In summary, most of the sample firms operate sophisticated appraisal systems. In recent years several of them have introduced new appraisal techniques. However, as performance appraisal is an issue on which employee representatives are particularly critical, some of the sample firms have experienced restrictions of their managerial autonomy in this area.

Employment stability

Employment stability and an emphasis on internal labour markets are pivotal parts of many HRM prescriptions. The rationale is that employees of firms that promote from within and guarantee employment security are committed to their company (Wood and Albanese, 1995). An indicator for such a policy would be the existence of an internal job-posting system and a preference for internal promotion. One would also expect that companies practising HRM avoid compulsory redundancies. Each of these areas will be examined in turn.

All firms in the sample have a system of job posting and usually advertise all vacant positions in the establishment first. Survey evidence confirms that internal job-posting systems are widely used in Germany, particularly by large firms (Mendius and Semlinger, 1991, p. 18). Most firms have also committed themselves in written documents to a policy of internal promotion. Deutsche Bank, for example, has done this in its management guidelines. There it is stated that ‘through a systematic HR development we aim to fill all vacant positions internally if possible’. In the five sample firms where such a commitment does not exist, the researcher was also told about an internal promotion policy, albeit not noted in company brochures.

A preference for internal promotion should be reflected in a low labour turnover. The informants in most companies in the sample were not willing to provide a detailed figure for their labour turnover, and claimed that this is about or below the industry average. More detailed data is available for commercial banks. This shows that in the first half of the 1990s, total labour turnover of employees covered by collective agreements at sectoral level was on average 9%. The redundancy rate itself was about 3%. Since 1992, commercial banks in Germany have reduced employment. This has not led to an increase in dismissals. Instead it was achieved by voluntary redundancies and early retirement (Muller, 1997a).

As in the case of banks, the commitment of employers in the German chemical industry towards stable employment had not been tested for a decade, as employment in this industry increased steadily between 1982 and 1991. This, however, changed in 1992. Since then all chemical firms have had to reduce their workforce significantly. The reductions were achieved by a combination of halting recruitment, early retirement and voluntary redundancies. It was emphasized by the interview partners that compulsory redundancies were not used, or if they were, then only in exceptional cases. This information is confirmed by similar statements collected from annual reports and more detailed information from Hoechst. Between 1991 and 1994 the parent company of this large chemical concern reduced its 50 000 strong workforce to 40 000. During these years the redundancy rate was on average 6.2%. More than 80% of the reduction was accounted for by early retirement; only 7% were compulsory, and 12% voluntary redundancies. Survey evidence confirms that German companies tend to avoid compulsory redundancies (Brewster and Hegewisch, 1994, Table 9.6; Mosley and Kruppe, 1992).

German institutions, at least partly, seem to ensure that firms operating in Germany follow a policy of employment stability. The labour law makes dismissals more difficult than, for example, in the UK. In addition, works councils can demand an internal job-posting for vacant positions, and also have a say in recruitment and dismissal decisions. Thus they exert at least some pressure on management to use internal labour markets. The system of initial vocational training could also explain why companies operating in German prefer internal labour markets. They do not only have an incentive to recover their investment by retaining apprentices, but the qualifications generated by initial vocational training enable them to follow a strategy of functional flexibility to adjust to fluctuations in employment.

Taken together, the data presented in this section indicates that the sample firms generally guarantee employment stability and emphasize internal labour markets. The recession which at the time of this research had affected the chemical industry did not appear to change this behaviour significantly. Such a policy seems to be fostered by the institutional environment.

Pay

HRM prescriptions tend to favour performance-related over job or person-based pay systems (see, for example, Mahoney, 1992). Although the effectiveness of performance-related pay has been questioned (Kessler and Purcell, 1992), it was a major focus of activities within HRM in the UK in the early 1990s (Guest, 1993). The reason for its popularity among managers is that performance-related pay is perceived to increase financial flexibility, to undermine collective bargaining, to strengthen the role of the line manager and to enhance employee commitment to the organization (Legge, 1995, p. 167). Nevertheless, besides contingent pay, basic compensation is also important. It must be adequate to attract and retain a committed, cooperative and involved workforce (Kochan and Dyer, 1995, p. 336).

An examination of pay in the German context has to distinguish between tariff and exempt employees (*Außertarifliche Angestellte)*. Whereas tariff employees are fully covered by collective-bargaining agreements, exempts are only indirectly affected. All those employees who earn significantly more than the highest base salary prescribed by the collective bargaining agreement are exempt. Two extreme cases excluded, the average exempt ratio in the sample firms is 18%.

Starting with tariff employees, collective bargaining has a strong influence on their remuneration. Collective-bargaining agreements in Germany set a relatively high minimum wage and ensure an adequate basic compensation. In contrast, the second HRM criteria, variable compensation is not generally fulfilled, as effective wages are not much higher than the collectively set ones (Hardes and Uhly, 1996). In banking, for example, the wage drift is only about 10%. Furthermore, most of this drift is distributed on a collective basis in the form of extra salaries. Individual bonuses for tariff employees are relatively small (Muller, 1997a). In the chemical industry individual bonuses, particularly for blue-collar workers, have nothing to do with performance. They are paid to compensate for job conditions such as excessive noise, and to reduce differences between the pay of white and blue-collar workers. Only two of the sample firms pay a monthly bonus that is based on an appraisal.

Some of the firms had recently attempted to make the remuneration of tariff staff more performance-related. This was not an easy task, as employee representatives have strong co-determination rights in grading as well as the introduction and operation of company-specific remuneration systems. In general, works councillors are critical about any moves from collective to individual and/or performance-related pay when they fear that this will increase pressure on their constituents, or will even lead to a reduction in pay. Hoechst, for example, wanted to change its traditional system of fixed bonuses to a performance-related one. This was initially opposed by the works council. Eventually a compromise was agreed that only part of the bonus will depend on the individual's performance, measured by an appraisal. Moreover, the system was phased in over some years, so that no employee will lose money. In another sample firm, employee representatives completely resisted attempts by management to change an existing fixed-bonus system into a performance-related one.

Compared to tariff employees, companies have more freedom in regard to exempt pay. Five of the 16 sample firms use an analytical job evaluation system to determine the base salary of exempts, two of them only introduced these in the early 1990s. The informants in the remaining companies, who were usually exempts themselves, were not able or willing to discuss their company's system for the determination of exempt pay in more detail. Pay for exempts appears to be a taboo topic in these firms. German experts confirmed this observation by suggesting that exempt pay is normally the exclusive task of senior management (Zander and Hoppe, 1990, p. 304).

With the exception of three sample firms, all others pay an annual bonus to their exempts. The extent of this bonus is normally determined by senior line managers, who get a budget for this purpose. The criteria for the distribution of the bonus are usually the individual performance and the economic success of the company or business unit. In banks, the title of the manager is also an important factor in the equation. None of the companies in the sample handed out data about the extent of these bonuses. Nevertheless, an indication is German salary surveys. They found that variable pay in German firms increases with the hierarchical level. Those at the top get, on average, about 16% of their total annual salary as a variable bonus (Handelsblatt 1993, p. K1; Seyfried, 1994, p. 141). This is relatively small in comparison to the USA and the UK (Leichtfuβ and Bonacker, 1992). However, in 1994, West LB was increasing variable pay for exempts, and Deutsche Bank announced to make exempt pay more performance-related. Hypo Bank was planning to introduce a more performance-related pay system for exempts in 1996. A growing importance of performance-related pay in German firms also emerged from the 1992 and 1995 Cranfield surveys (Brewster and Hegewisch, 1994, Table 4.2a; Weber and Kabst, 1996, p. 32).

Although exempt pay is hardly affected by collective bargaining, remuneration decisions for this group of employees are constrained by co-determination. In one of the sample firms the works council prevented the introduction of a formal job-evaluation system for exempts. In other sample firms, it influences its design and controls its operation. Even if there is no formal system of pay determination, the works council has an influence on exempt remuneration. Employee representatives, for example, have the right to see the pay lists for all non-executive staff. In one of the chemical firms, employee representatives perceived a bonus system, which was entirely based on the discretion of supervisors, as too arbitrary and demanded to base the determination of the bonus on objective criteria. Because management and works council did not reach an agreement, a conciliation committee (*Einigungsstelle)* was set up. This consists of equal number of employer and employee representatives, and is chaired by an independent figure. It can issue binding rules. In the case reported here, management was forced to accept a system that allocates the bonus according to points, which exempts can earn by working in projects or on extra tasks. Additionally, the works council got the concession that only the number of points earned, but not the level of basic pay or the hierarchical level, play a role in the allocation of the bonus.

Concluding this section, it seems that basic compensation levels are adequate. In contrast, performance-related pay has so far not been widely implemented in German firms. This assessment is not only valid for tariff employees, whose remuneration is to a large extent determined by collective bargaining, but also for exempts, who are not directly covered by it. However, it appears that the ideology of performance-related pay has had some impact on managers. Several of the firms in the sample have attempted to link pay more to performance by introducing analytical job evaluation for exempts, by changing fixed bonuses into variable ones and by linking merit increases and bonuses to an appraisal scheme.

Communication

An important element of HRM should be intensive employee communication (Storey, 1992, p. 35). The assumption is that this leads to a greater commitment of the workforce, which in turn is expected to enhance motivation and performance (Guest, 1987, p. 513). The following analysis will look separately at bottom-up, top-down and two-way communication. It concentrates on more formal methods, as more detailed studies would be needed to study informal communication. Regarding the flow down, a company practising HRM will inform all staff with techniques such as formal mission statements, in-house journals, annual reports and team briefings. Although these are not HRM innovations, their widespread application would indicate that employee communication has a high priority. For the flow up we expect to find attitude surveys. Employee meetings will be used as a means of two-way direct communication.

Starting with top-down communication, 13 of the sample firms have management guidelines (*Führungsgrundsätze*) and/or mission statements (*Unternehmensleitbilder*). Whereas the management guidelines collected normally prescribe a cooperative–participative leadership style, mission statements have a broader focus, and usually only refer briefly to leadership style. In contrast to mission statements that originated in the USA, management guidelines are a particular German feature that intends to foster a change from an autocratic leadership style traditionally prevalent in German firms, to a cooperative–participative one (Grunwald and Lilge, 1982). The widespread use of this communication tool in large companies is supported by survey evidence (Gabele, 1992, p. 39; Gaugler and Wiltz, 1993, Table 8; Wirth and Beck, 1986, p. 137; Wunderer and Klimecki, 1990). A second popular means of downward communication are in-house journals (*Firmenzeitschriften*). All but two of the sample firms have such journals, some of them running for a long time. When the researcher asked about other downward communication techniques, circulars, noticeboards, off-the-job training courses and videos were mentioned. Henkel and Hoechst also produce regular reports for special target groups such as managers and first line supervisors. Team briefings, which are widely used in the UK (Ramsay, 1992, pp. 222–223), were not mentioned.

In contrast to top-down communication, which primarily aims to bring the views of management to the attention of the workforce, bottom-up communication informs management about the views of staff. Whereas in the past bottom-up communication was largely informal, recently more formal means such as attitude surveys have become important. Ten sample firms have conducted comprehensive or representative attitude surveys of their workforce. Three more have carried out surveys of particular groups of employees only. Turning to two-way communication, ten of the sample firms have employee meetings organized by management. These are usually held at the branch or departmental level. Since 1992, Veba Oil has, for example, regular meetings of all employees of certain departments with a board member.

Nine of the 18 sample firms have only in the 1990s started to use one or more of the direct communication techniques discussed above. Furthermore, during this time, Deutsche Bank and Dresdner Bank established units within their central HR departments that are responsible for focusing employee communication. It therefore appears that over recent years, direct communication has become more important. Confirming these observations the 1992 Cranfield survey found that half of the firms surveyed in Germany have increased verbal and/or written direct communication (Brewster and Hegewisch, 1994, Table 6.6).

Turning to institutional constraints, some of the sample firms involved employee representatives in the design of attitude surveys, although it is still an open legal question whether management is required to get the approval of the works council for a survey questionnaire (Breisig, 1990). More important than this is that the co-determination law not only stipulates that management shares information with employee representatives, but also gives them several means to communicate with the workforce. Legal regulations make frequent contacts between works councils and senior managers compulsory. Whereas at the company level the central works councils negotiate with top management, at the establishment level, works councils deal with local line and HR managers. Considering the important role of the works council in the communication process, it is not surprising that the 1992 Cranfield survey found that, after the immediate supervisor, the works council is the second most important means of bottom-up communication used by organizations in Germany (Gaugler and Wiltz, 1993, Table 37).

In addition to an intensive two-way communication between senior management and employee representatives, the law also stipulates frequent two-way communication between the works council and employees. An important instrument for this are works meetings (Works Constitution Act Section 42). These are regularly held in all but one of the sample firms. This explains that employee meetings organized by management are usually confined to organizational units that do not have their own works meetings such as small branches or departments. Works meetings are called by the works council and conducted by its chairperson. All employees of the establishment are entitled to participate. In some of the firms, the researcher was explicitly told that works meetings are part of the company's communication system. This is reinforced by the fact that they are usually addressed by the most senior managers of the establishment. For instance, at the main plants of Henkel, Hoechst and Merck, the works meeting is addressed by the labour director or the board chairman. At these firms I also found detailed reports about the gathering in the employee journal.

One could expect that the observed increase in direct communication has lead to a parallel decrease in indirect communication. The data presented does not confirm this. The reason may well be that the co-determination law deters companies from neglecting indirect communication. A senior works councillor, when asked about his position with regard to employee meetings organized by management, suggested that he and his colleagues would object to a competitive event to the annual works meeting. As employee representatives have rights that would allow them to stop such meetings, management has to be careful not to use them as a means to threaten the works council. Other employee representatives interviewed also did not seem to be threatened by an increase in direct communication, as management needs the consent of the works council for the introduction and operation of most direct communication techniques. Hence it is sensible for management to involve works councillors in their design and operation. The observation that in German firms direct communication has not been increased at the expense of indirect communication is again confirmed by the 1992 Cranfield survey. Whereas only 3% of the firms surveyed claimed to have decreased communication through the works council, about one-third claimed to have increased it (Brewster and Hegewisch, 1994, Table 6.4)

In conclusion, the evidence presented in this section indicates that employee communication has a high priority in the sample firms. This is at least partly a result of institutional pressures. The existence of works councils ensures that there is at least some employee communication. In addition to frequent encounters between works councillors and senior managers, regular works meetings are also used for this purpose. Traditionally, direct communication instruments were not widely used. In the early 1990s, most of the firms in the sample have increased direct communication by introducing techniques such as attitude surveys, works meetings organized by management and/or mission statements. So far, this increase in direct communication has not been at the expense of indirect communication.

Quality improvement techniques

Quality improvement techniques such as suggestion schemes, quality circles and Total Quality

Management (TQM) have been recognized as important elements of HRM, as they can enhance the quality of performance and lead to a stronger involvement of the workforce (Guest, 1991, p. 154; Legge, 1995, pp. 214–220). Suggestion schemes are clearly not a distinctive HRM innovation. Nevertheless, they can contribute to the HRM outcomes of commitment and quality. All sample firms operate suggestion schemes, Dresdner Bank and Hoechst since the 1930s. Quality circles became popular in Germany in the early 1980s, when there was a debate about how German firms can compete with and learn from Japan (Breisig, 1990). Quality circles are much less widespread in the sample firms than suggestion schemes. Only one bank and three chemical firms operate quality circles. Four of the chemical firms had quality circles in the past. The fact that they do not use them any more could indicate that the quality-circle euphoria is over.

TQM is widely seen as a better and more comprehensive succession concept to quality circles (Hill, 1991). In the late 1980s and early 1990s, all indigenous chemical firms in the sample issued quality principles, which were inspired by the TQM philosophy. Some of them also established quality departments. However, quality seems to be a technical task to ensure the high quality of the end product, rather than the encompassing cultural change envisaged by the TQM philosophy. This is different in the two USA firms in the sample. In 1994, Citibank and Procter & Gamble introduced comprehensive TQM schemes.

The co-determination law explicitly mentions suggestion schemes as an area where employee representatives have co-determination rights. This explains that the sample firms usually have one or more works councillors on the committee that decides about the acceptance of a suggestion and the value of the bonus paid. According to a senior works councillor of one of the chemical firms, their company only has a suggestion scheme, as the employee representatives have forced management to install it. Management only agreed after the works council won an injunction via the conciliation committee. The operation of quality circles is also often regulated by works agreements (Breisig, 1991). The works agreement of Shell's German subsidiary, for example, prescribes that meetings of quality circles are only to be held during working hours. It also gives assurances that there will be no discrimination, for example in pay or appraisal assessments, against those who do not take part and confirms the co-determination rights of the works council (Witzig and Breisig, 1994).

To conclude this section, whereas the chemical firms in the sample have introduced elements of TQM, the quality management of German banks still appears to be confined to the traditional instruments such as suggestion schemes. Although the co-determination law only makes direct reference to suggestion schemes, works councils also have a say in the introduction and operation of quality circles and TQM schemes.

Discussion of results

The paper has examined the HR techniques used by 16 firms operating in Germany. Aims were to discover whether HRM prescriptions are fulfilled, whether there is a development towards HRM and what influence German labour-market institutions have? The results are summarized in Table 2. It reports that in three of the seven policy areas examined, most firms in the sample appear to fulfil HRM criteria. For some of them we observed a development towards HRM in the 1990s. In all policy areas analysed, German labour-market institutions play a role and influence HR policies.

HRM techniques can be divided into those which are supported by German labour-market institutions and those that are potentially incompatible with them. HRM techniques are relatively widespread in the areas of training, employment stability and employee communication. This is hardly surprising, as German labour-market institutions exert pressures on companies to provide extensive training, emphasize internal communication and guarantee employment security. For instance, the initial vocational training system provides incentives to offer training, and the existence of works councils ensures at least some degree of employee communication. Hence, central tenets of the HRM literature are in line with the requirements of German labour-market institutions.

In the 1990s, developments towards HRM prescriptions have taken place in the areas of appraisal, quality improvement techniques, direct communication and performance-related pay. Here German companies traditionally practise little HRM. Obviously there is more room to introduce or extend elements of HRM in those

Table 2. HRM and the companies in the sample

HRM criteria	Fulfilment of HRM criteria in most companies in the sample	More widespread (➚) use of HRM practices in the 1990s	Impact of industry	Impact of institutions
Selection and induction		➚		initial vocational training works council –
Training	✓		banks +	initial vocational training +
Appraisal		➚		works council –
Employment stability	✓		chemical firms –	initial vocational training + works council +
Pay		➚		collective bargaining – works council –
Communication	✓	➚		works council +
Quality improvement techniques		➚	chemical firms +	works council –

Note: Blanks indicate that criteria are not fulfilled or that the impact of an explanatory factor is not important, +(–) indicate that either industry or any of the three labour-market institutions studied has a positive (negative) impact on the use of HRM practices.

areas which have been neglected in the past than in those where German companies have already practised HRM for a long time. Nevertheless, it is remarkable that it has been possible for management to introduce HRM techniques such as goal-based appraisal, attitude surveys and performance-related pay that are not necessarily welcomed by unions and works councils. This development suggests that there is room for the introduction of HRM elements that are not clearly supported by the German system. Nevertheless, in firms with works councils, most of these changes have to be negotiated with employee representatives. Thus a narrowly unitarist approach can generally not be followed by companies complying with the requirements of German labour-market institutions. This also explains why techniques such as performance-related pay that are generally not appreciated by employee representatives are primarily introduced in areas where the influence of institutional features is not so strong, as in the management of managerial staff. Hence, the relationship between management and works council is crucial. A low trust relationship can result in restricted flexibility (i.e. the works council does not agree to overtime requests), change taking a long time (i.e. there are long negotiations about works agreements) and a large amount of management time being consumed by negotiations with the works council (Kotthoff, 1994). As such a behaviour can severely disrupt the smooth running of an enterprise, employers' associations and business administration academics advise companies to use cooperation and involvement strategies in their dealings with the works council (von Eckardstein, 1997; Niedenhoff, 1990).

In contrast to labour-market institutions, the impact of industry appears to be less important. Different workforce structures, products and recessional influences explain that banks practise more HRM in the areas of training and employment stability, whereas chemical firms do more in regard to quality improvement techniques. However, these differences are only minimal. They might have been more pronounced if I had not compared two high-skill sectors. For instance, different results may have been expected if we had included a low-skill industry such as catering or retail. There were also no major differences between the foreign-owned and the indigenous sample firms. These only emerge if one includes foreign-owned firms that do not comply with German labour-market institutions (Muller, 1998).

Conclusion

This paper examined the management of human resources in Germany. In contrast to previous research which suggests that companies operating in Germany are low users of HRM, this research found that several of the techniques associated with HRM are widely used. Partly the German system encourages the implementation of some HRM practices. For example, the system of initial vocational training contributes to a relatively high emphasis on training. Co-determination exerts some pressure on German companies to guarantee employment security. Furthermore, over the last decade, the companies that participated in the case studies introduced HRM techniques such as development-assessment centres, performance-related pay and attitude surveys that were not used in the past. Thus rejecting the notion that HRM techniques are incompatible with German labour-market institutions, a pluralist version of HRM appears to be quite compatible with the highly-regulated German context (Muller, 1999b). This finding is in line with research from the UK which suggests that HRM can work in union firms (see for example, Storey and Sisson, 1993; Wood and Menezes, 1998).

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